

# **Pick-Sloan Missouri River Basin Program**

## **Informal Discussions on Proposed 2008 Rate Adjustment**

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April 2007

# Agenda

- Criteria for Repayment
- Final FY 2006 PRS Summary
- Drought Impacts
- Rate Adjustment
- Proposed Schedule

# Criteria for Repayment

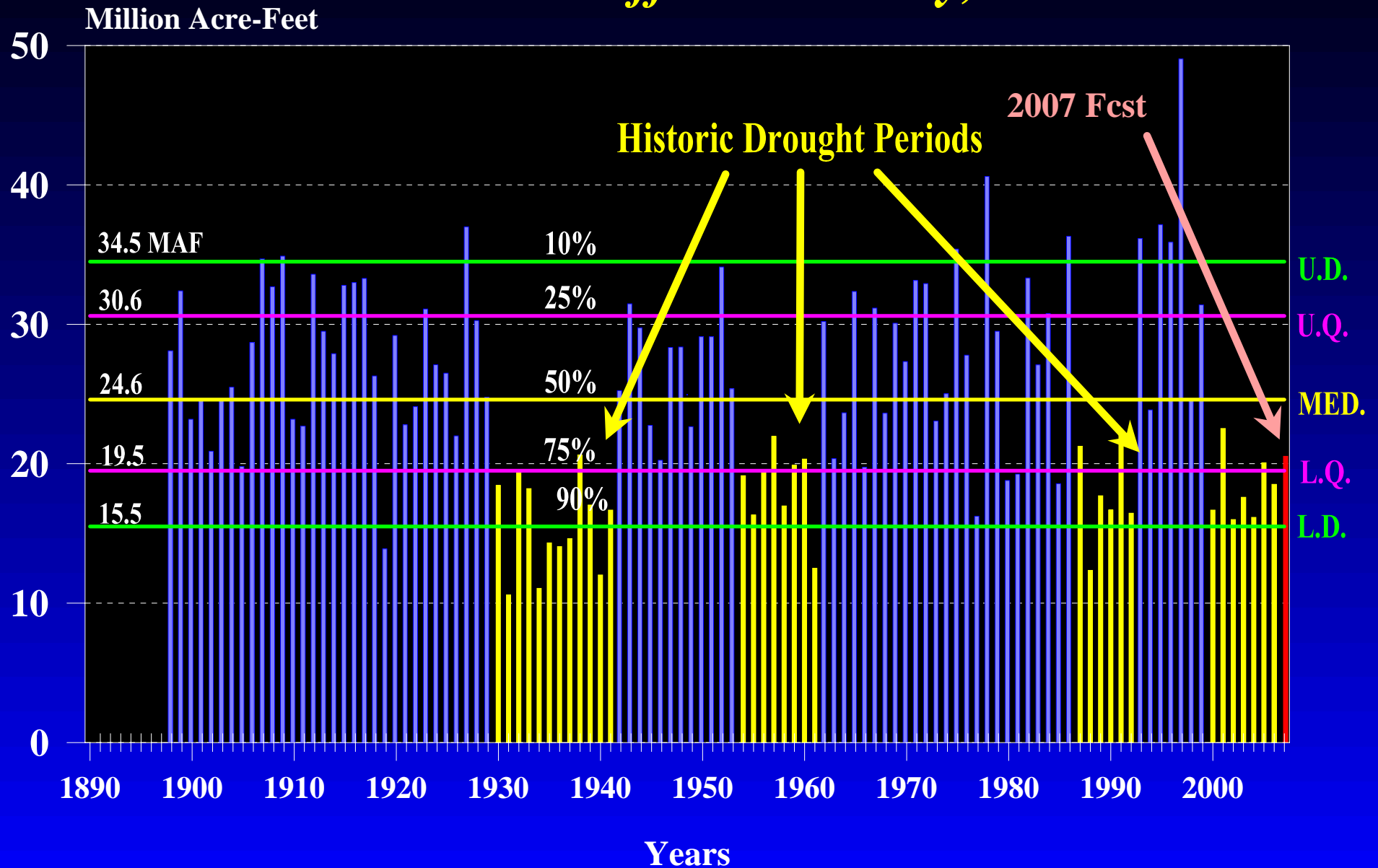
## Flood Control Act of 1944

Power is to be sold at the “lowest possible rates to consumers consistent with sound business principles.”

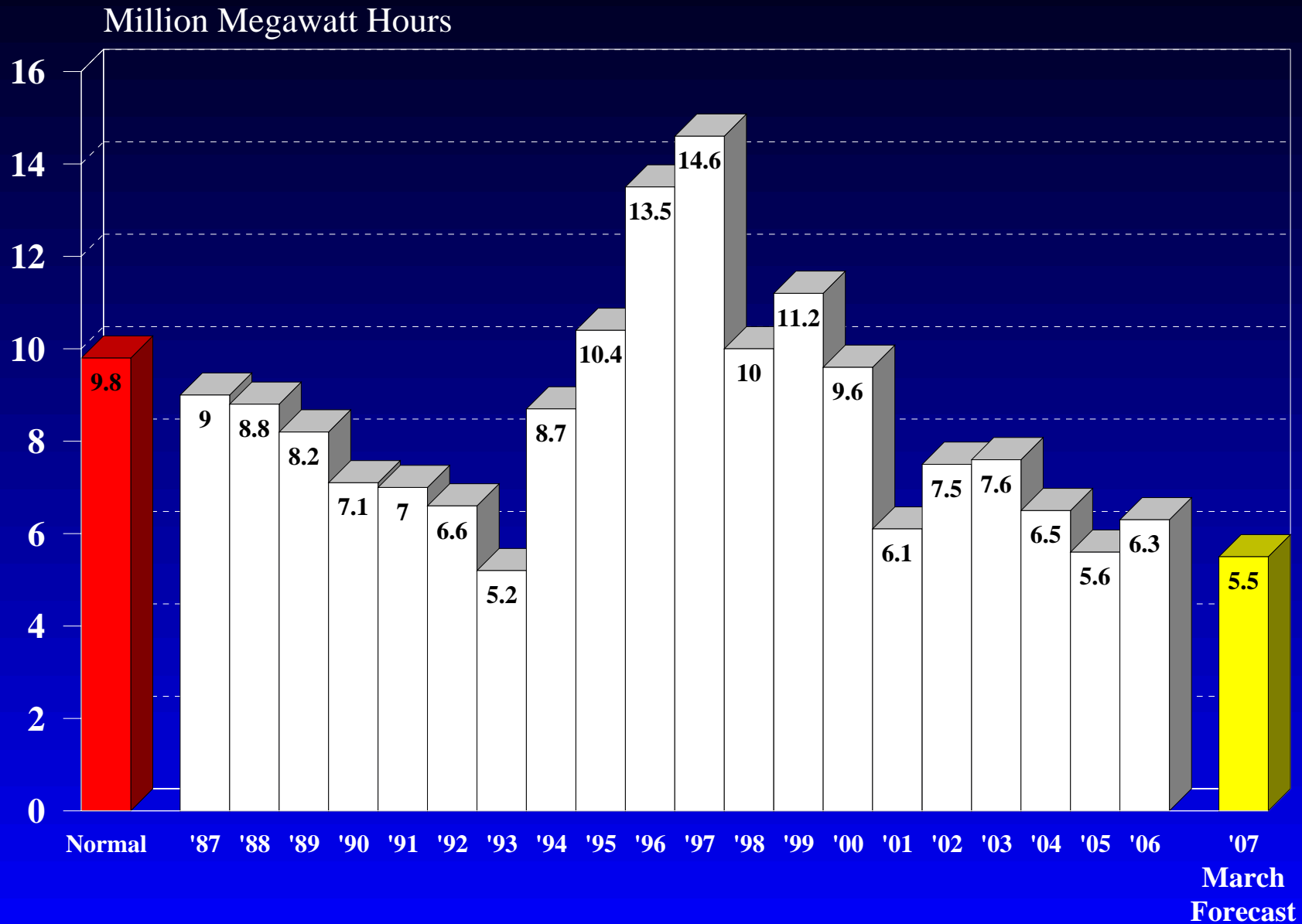
# Final 2006 PRS

- Solved at 24.78 mills/kWh
- Total drought debt thru 2006 is \$438 M
- Projecting Deficit of \$135 M in 2007
- Total Deficits for this Drought \$573 M
- 10 Year deficit repayment
- Final 2006 PRS includes 2008 work plans

# Missouri River Mainstem Annual Runoff at Sioux City, Iowa



# *Mainstem System Generation*



# Fort Peck Reservoir



# Garrison





# Garrison



# Western's Rate Proposal

Linda Cady-Hoffman

# Proposed Rate Adjustment

- Eliminate the Tiered Rate for energy over 60% load factor
- Metered methodology for Firm capacity charge
- Allocated CROD methodology for Peaking capacity charge
- Base and Drought Adder components

# Eliminate the Tiered Rate

- Tiered Rate Discourages Load Management
- Consistent with WD of Pick-Sloan

# Firm Peaking Power

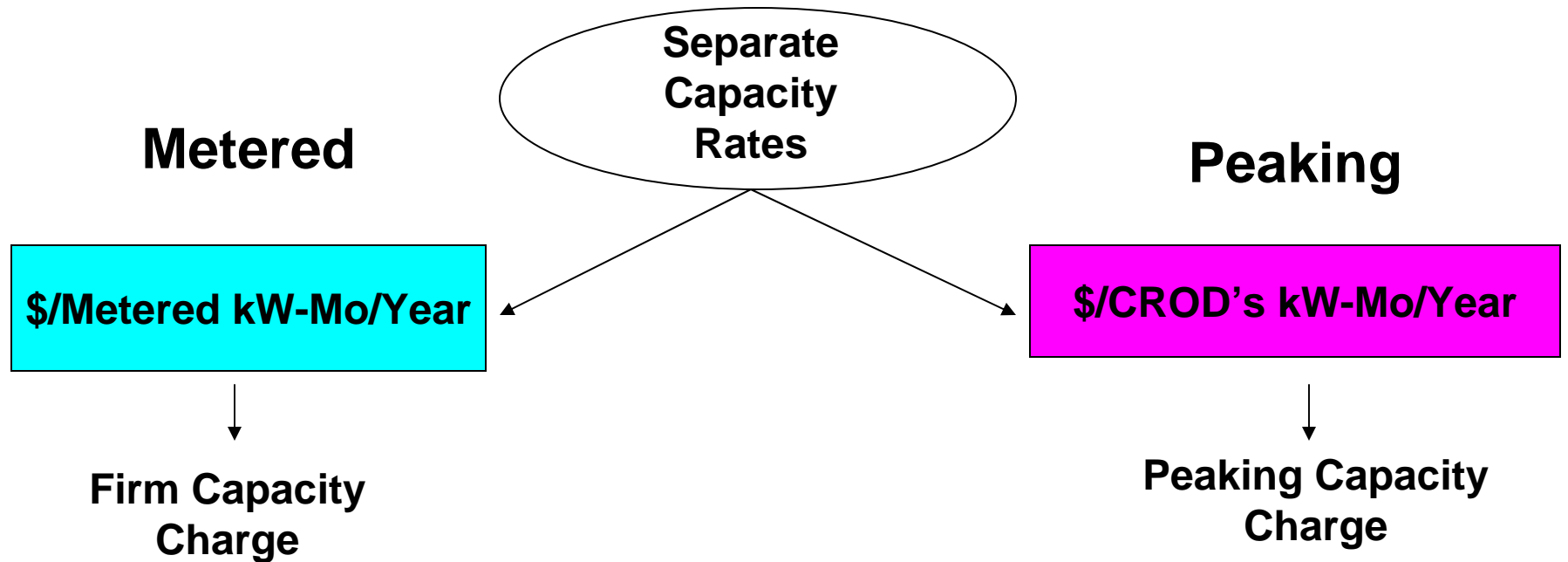
- Capacity product
- Customer pays capacity rate on total peaking CROD each month rather than monthly usage
- Contractual commitment through the year 2020
- Develop a Peaking Power capacity rate representative of the Peaking product

# Metered Capacity vs. Peaking Capacity

Present Capacity Rate  
Firm = Peaking

Firm Capacity Rate

\$/Total Units



# Pick-Sloan ED Rate Design

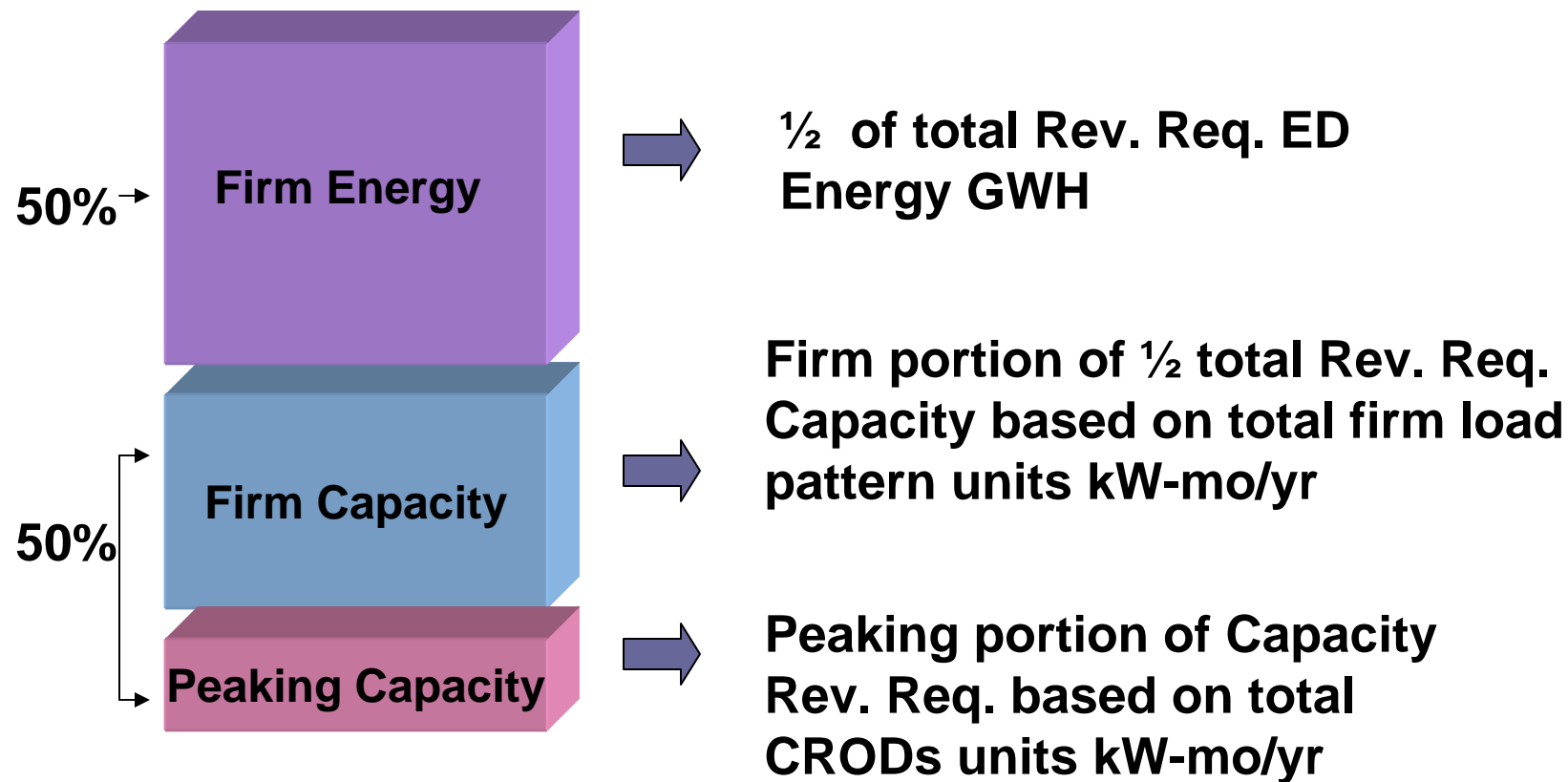
# Eastern Division Rate Design

- Firm capacity based on Metered Capacity  
Billing Units of 17,876 MW-mo/year
- 8,742 GWH Firm Energy
- 356 MW of Peaking capacity recovered in  
the 50/50 capacity and energy split
- Peaking capacity based on CROD billing  
units of 4,272 MW-mo/year



# Eastern Division Revenue

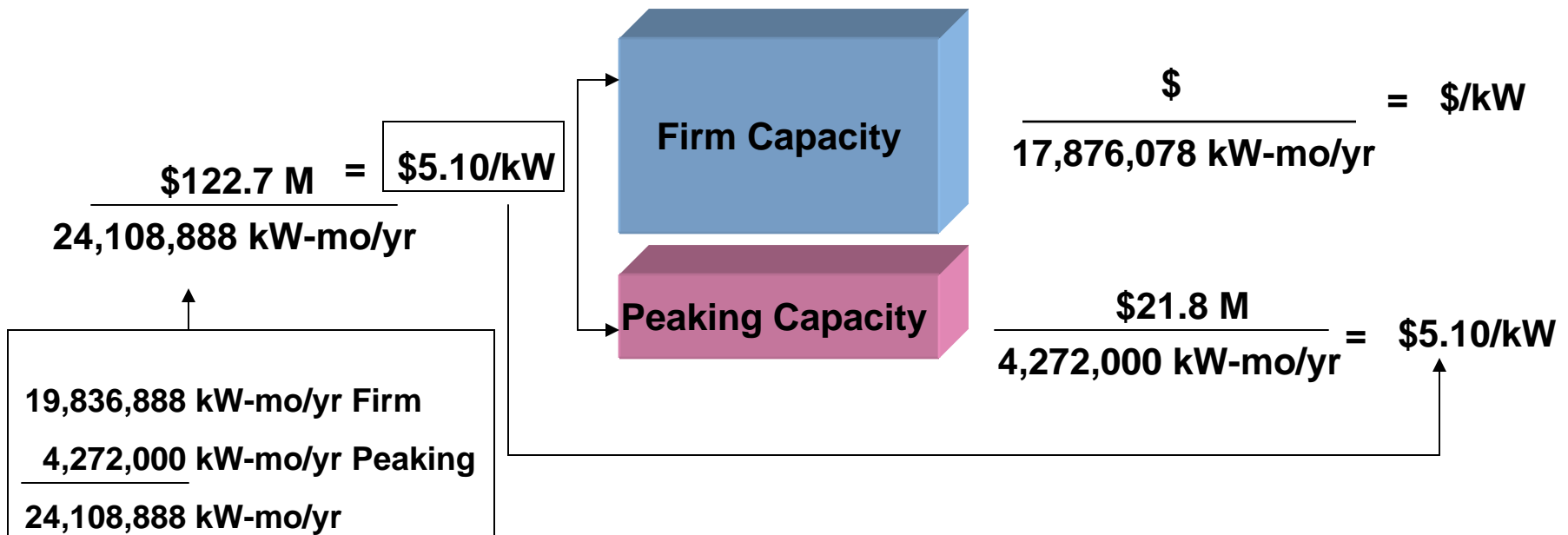
50/50 Capacity/Energy Split



# Separate Capacity Rates

## Peaking

## Firm



**Note: Nickel rule for capacity rounding**

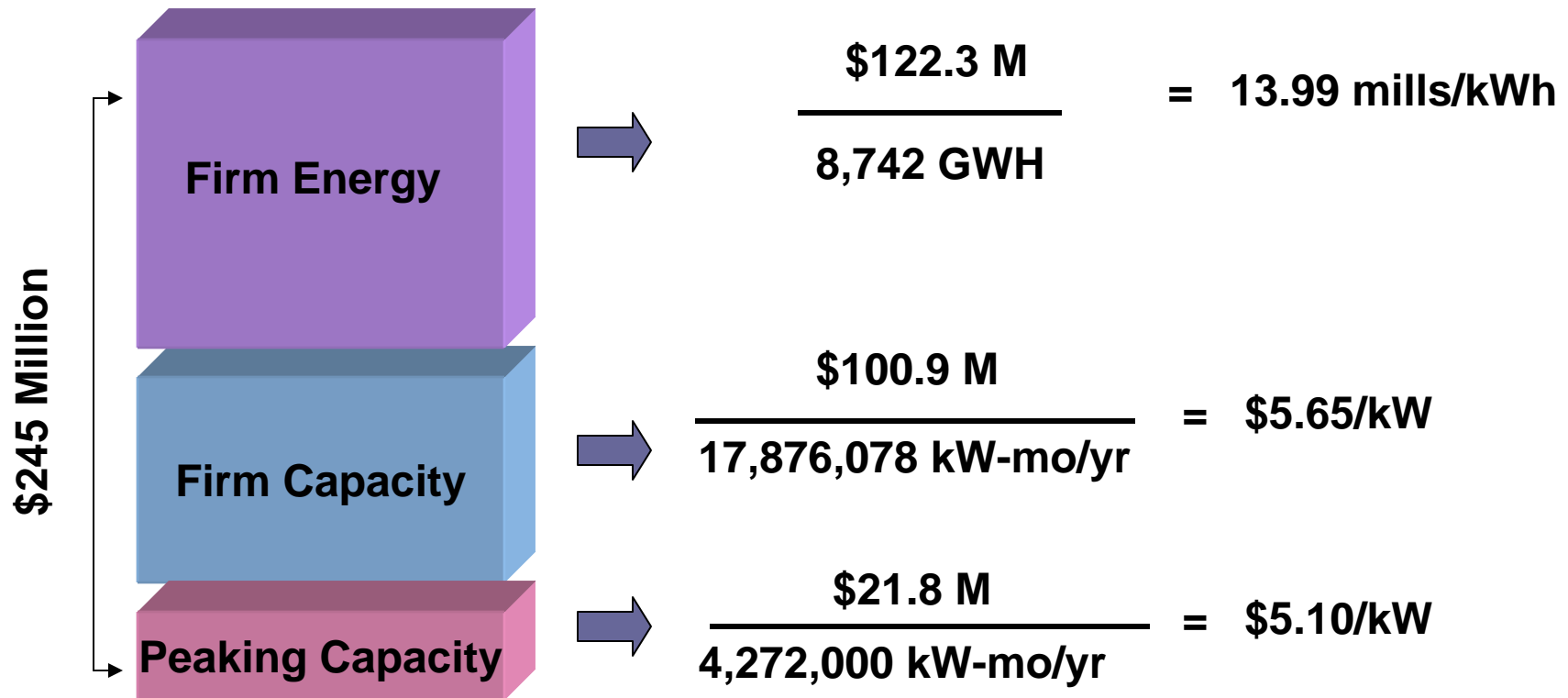
# 50/50 Design

Eastern Division rate is 50/50 design where 50% of the revenue is recovered from the capacity rate and 50% is recovered from the energy rate:

Firm Power Rev Req.	\$ 214.1 Million
Peaking Revenue	\$21.8 Million
5% Discount	<u>\$9.1 Million</u>
Gross Revenue	\$ 245 Million

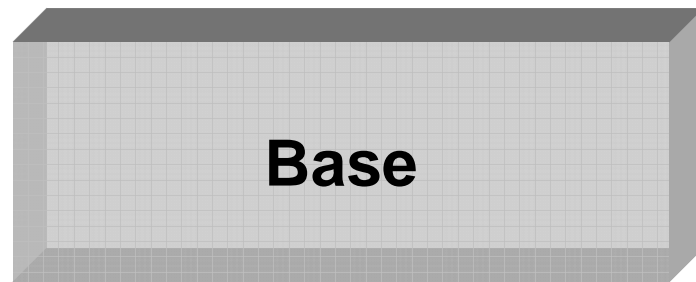
# Proposed ED Rate Design

## 50/50 Capacity/Energy Split

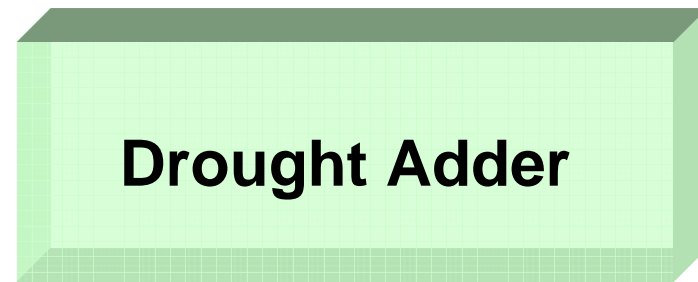


Note: Nickel rule for capacity rounding

# Rate Components



**Adjusted only by Public  
Process**



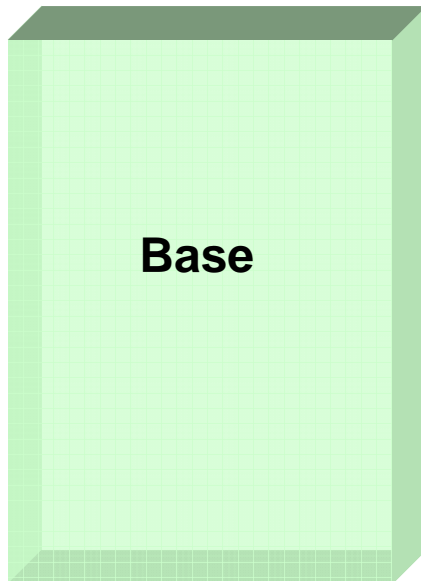
**Adjusted Annually by Formula  
or by Public Process**

# Rate Components



→ **Drought \$**

- Recovers \$ Associated with the Drought
  - Purchase Power related to drought
  - Interest on Drought Debt
  - Historical Drought Debt



↘ **O&M \$**

→ **Capital \$**

↘ **Interest \$**

- Annual O&M
- Investments - Additions and Replacements
- Annual Interest on Investment
- Inflation
- Normal Purchases
- Transmission Costs

# Base Component Methodology

Compare new PRS Base to previous years Base

Base meets costs

No change to the Base

Base does not meet costs

Initiate public process

Implement new Base

*Annually*

# Drought Adder Methodology

*Annually*

**Lower than projected  
Drought Costs**

**Keep 10 Year Repayment  
of Drought Debt**

**Reduce Adder**

**Higher than projected  
Drought Costs**

**Increase Adder**

**Automatic increase  
up to 2 mills/kWh**

**Increase greater than 2 mills/kWh  
Initiate Public Process**



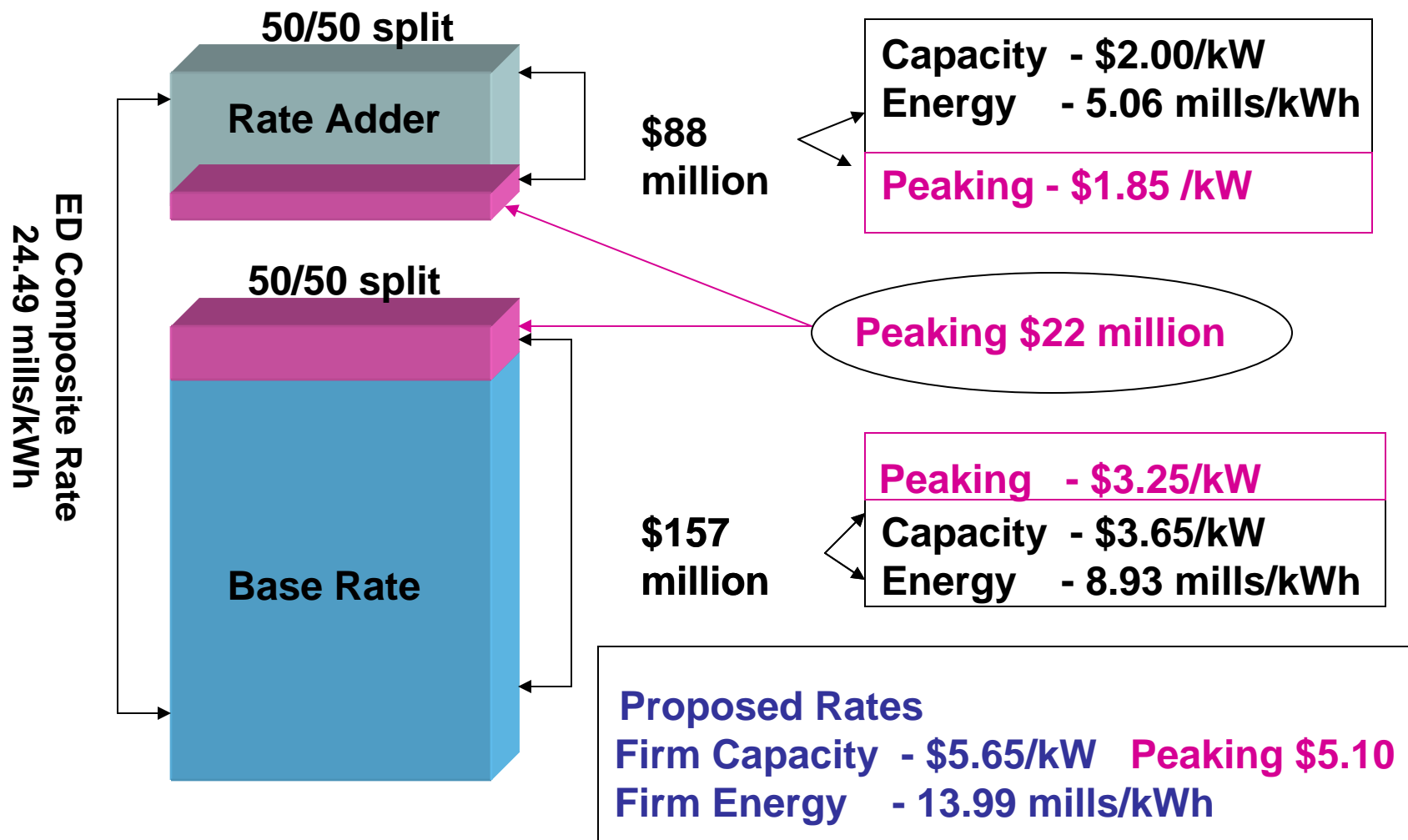
# Drought Adder Annual Process

- Preliminary PRS (Final PPW late Summer)
- Adder adjusted up to 2 mills/kWh
- Send customers notice of increase (October)
- Rate adjusted in January billing period
- Any decrease will be based on final audited financial data in the annual final PRS (February/March billing period)

# Eastern Division

\$ 245 million Revenue Requirement

Firm Metered & Peaking CROD



# Proposed Rates Summary

# Pick-Sloan 2008 Rate Adjustment

	Composite Rate (mills/kWh)	Percent Increase	Pick-Sloan Firm Power Rev. Req. (millions)	Western Division Firm Rev Req. (millions)	Eastern Division Firm Rev Req. (millions)	Eastern Division Firm Plus Peaking. Rev. Req. (millions)
<b>Current Rates (2<sup>nd</sup> Step) January 2007</b>	<b>19.83</b>	<b>12%</b>	<b>\$212.7</b>	<b>\$41.9</b>	<b>\$170.8</b>	<b>\$189.9</b>
<b>Proposed Rates January 2008</b>	<b>24.78</b>	<b>25%</b>	<b>\$265.9</b>	<b>\$51.8</b>	<b>\$214.1</b>	<b>\$235.9</b>

# ED Proposed Rates

<b>Firm Power Service</b>	<b>Current Rates Effective January 1, 2007</b>	<b>Proposed Rates Effective January 1, 2008</b>
<b>ED Firm plus Firm Peaking Rev. Req.</b>	\$189.9 million	\$235.9 million
<b>ED Composite Rate</b>	19.54 mills/kWh	24.49 mills/kWh
<b>Firm Capacity</b>	\$4.45kW-month	\$5.65 kW-month
<b>Firm Energy</b>	11.29 mills/kWh	13.99 mills/kWh
<b>Tiered Rate</b>	5.21mills/kWh	N/A
<b>Firm Peaking Capacity</b>	\$4.45 kW-month	\$5.10 kW-month
<b>Firm Peaking Energy</b>	11.29 mills/kWh	13.99 mills/kWh

# Proposed Schedule for 2007

- Informal Meeting
  - April 9<sup>th</sup> Denver, CO
  - April 10<sup>th</sup> Sioux Falls, SD
- Public Process (90 Days)
- Federal Register Announcement
  - May 25<sup>th</sup>
  - Information Forums
    - June 18<sup>th</sup> Denver, CO
    - June 19<sup>th</sup> Sioux Falls, SD
  - Comment Forums
    - July 23<sup>rd</sup> Denver, CO
    - July 24<sup>th</sup> Sioux Falls, SD
- Close of Comment Period
  - August 22<sup>nd</sup>
- Implementation of New Rates
  - January 1, 2008

# Other Information

- Materials will be posted on Website

<http://www.wapa.gov/ugp/rates/2008firmrateadjust>

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# Discussion